Monarch Investments Limited

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49th ANNUAL REPORT

1970

BOARD OF DIRECTORS

President	ROY A. WYKES
Vice-Presidents	ARTHUR K. LEITCH
	J. J. THISTLEWAITE
	WILLIAM M. THOMPSON
Directors	G. DRUMMOND BIRKS
	W. G. C. HOWLAND, Q.C.
	DOUGLAS JOHNSTONE
	LESLIE OLORENSHAW, F.I.O.B.
	FRANK TAYLOR, F.I.O.B.

Secretary	NORMAN J. NOTLEY
Treasurer	COLIN J. PARSONS, C.A.

Transfer Agents	CANADA PERMANENT TRUST COMPANY 1901 Yonge Street, Toronto 455 Granville Street, Vancouver, B.C.
Bankers	THE TORONTO-DOMINION BANK King and Bay Streets, Toronto
Auditors	PEAT, MARWICK, MITCHELL & CO. 4 King Street West, Toronto
Solicitors	McMILLAN, BINCH 20 King Street West, Toronto

TO THE SHAREHOLDERS

Your Directors have pleasure in submitting to you the financial results of the operations of your group of Companies for the fiscal year ended December 31st, 1970, together with the audited accounts as reported upon by Peat, Marwick, Mitchell & Co., your Auditors, which include Consolidated Balance Sheet, Consolidated Statement of Earnings and Retained Earnings Employed in the Business, and Consolidated Statement of Source and Application of Funds.

In July, 1970, your Company's Head Office was moved to its Heron's Hill development at 2025 Sheppard Avenue East, in North York, part of Metropolitan Toronto. Heron's Hill makes a most suitable base for the operations of the Group.

FINANCIAL STATEMENTS

The operating profit before depreciation and income taxes but after interest charges, as reported in the Consolidated Accounts, for 1970 amounted to $1,575,428 compared with $1,932,228 reported in 1969. After depreciation, interest on mortgages, bonds, etc., the net profit before taxes is $1,336,185 compared with $1,689,639. However, it will be noted that net earnings for the year after taxes have increased in the year from $545,639 to $709,410. During the year a dividend of $225,400 was received from an Affiliated Company.

All the Company's land inventory is recorded in the accounts at not more than cost of acquisition. The carrying costs of raw land are charged against current income in accordance with the Company's long established practice. A steady volume of new construction of houses has been maintained, although margins of profit are less than in past years.

APARTMENTS, TORONTO

Vacancies continue to be low and, in spite of increases in operating costs, returns have been reasonable. Your Company's plans for the redevelopment of some of its older properties are further advanced, but the machinery of development moves slowly.

42-48 CHARLES STREET EAST OFFICE BUILDING, TORONTO

This building is fully rented (except for minor vacancies) and continues to show good returns.

KIPLING HEIGHTS SHOPPING CENTRE, ETOBICOKE EGLINTON SQUARE SHOPPING CENTRE, SCARBOROUGH

In spite of greatly increased competition both Centres have been able to increase slightly their volume of sales.

HERON'S HILL OFFICES, NORTH YORK

The first stage of this exciting complex of offices has been completed. Of 120,000 square feet of rentable space about 85% is occupied. We have been fortunate in securing as a major tenant Honeywell Information Systems (the head office in Canada).

Construction of the second stage is expected to begin in the early summer of 1971.

MONARCH CONSTRUCTION LIMITED

The Chartwell Sub-division in Scarborough has progressed well under very difficult market conditions. House sales, in comparison with last year, were reduced in number but a successful Town House rental scheme for an investor partner helped maintain our progress.

A further phase of the sub-division has been opened up, work is about to begin on a series of condominiums, and preparations for the construction of a much-needed shopping centre are well in hand.

The remaining land at Pleasant Valley, Dundas, is now ripe for the development which had been delayed through the irregularity of the site, but which now adds much to its appeal.

Negotiations (with local authorities and planners) have begun for a new sub-division of 407 acres on land which your Company has purchased at Unionville, about 3 miles north of the boundary of Metropolitan Toronto.

MONARCH CONSTRUCTION (EASTERN) LIMITED

The name of this Company has been changed from Monarch Construction (Quebec) Limited to Monarch Construction (Eastern) Limited. Because conditions in Quebec, although improving, are still far from normal, profitable work by this Company has been undertaken in Ontario.

Indications are that we may look forward to much more activity in land development in Quebec, in the near future.

CLARKSIDE CORPORATION LIMITED

In 1970 Westminster Park Sub-division had its best year. The Ontario Government under the H.O.M.E. plan purchased a considerable number of our lots. We in turn are supporting their efforts to produce low cost homes by building at very competitive prices. This is a good example of successful cooperation between Government and Industry.

The proposed shopping centre has been delayed, as at Scarborough, in great part by the high costs of financing.

GENERAL

Your Company has come through a difficult year and yet we can regard our growth as encouraging. However, much of our profit was generated by transactions initiated in 1969 and the carry-over from 1970 to 1971 of such transactions was not so great.

Government has called on our industry to produce more homes at lower prices which in the light of increased wage demands from workers and increased cost of materials worsened by heavy sales taxes would appear to be an almost impossible task. In spite of this the industry can meet the requirements if Government at all levels will really try to help. Mortgage money must be available at reasonable rates. Specifications for construction of both homes and services must be lowered to realistic standards and sizes of homes reduced to a level which Canadians of lower income brackets can afford. More than ever we need to find an answer to the prolonged and unreasonable delays which occur through red tape in the processing of plans of any kind, thus increasing the cost of production and of course with it the sales price of the home.

It would appear wisdom may prevail and some modification of the White Paper problems mentioned in our last Annual Report may occur. We sincerely hope so.

1971 has opened on a cheerful note. Sales are ahead of last year, interest rates are down, we are making better progress with processing our plans and we are optimistic for the future.

Our Team has functioned remarkably well during this very difficult year and deserves all the praise we can give. I know you will join the Board and myself in acknowledging the Team's loyalty and success and in offering our sincere thanks and congratulations.

Our thanks are also due to our Bankers, our Professional friends and associates, Suppliers and Sub-Contractors for their cooperation.

We would like to bring to your attention that in April Mr. W. M. Thompson will retire as a Director and Vice-President of your Company in accordance with the Group rules that executives will retire at 65 years.

Mr. Thompson has served with distinction since he joined us in 1954 and has deservedly earned an enviable reputation, not only within the Group, but throughout the industry. We are happy to announce that Mr. Thompson's connection with the Group will not be entirely severed since he has agreed to continue to offer help as a consultant.

Finally, on a personal note, my thanks are due to my colleagues on the Board for their great cooperation in administering the affairs of your Company over the past year, and for their invaluable guidance and support.

Submitted on behalf of the Board

Roy A. Wykes
President

March 12, 1971

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CONSOLIDATED BALANC

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1969	ASSETS		*1970*
$ 306,099	Cash		$ 197,175
438,006	Accounts receivable		245,679
83,386	Prepaid expenses		42,020
496,653	Mortgages receivable, including accrued interest (note 2)		669,421
6,946	Income taxes recoverable		211,021
	Investment in a 49% owned affiliated company (note 1b):		
490	Shares, at cost	$ 490	
9,766	Advances	6,038	
10,256			6,528
279,532	Amounts deposited for performance of contracts		277,549
11,876,204	Inventory of land, development costs and construction in progress, at the lower of cost and estimated realizable value		11,317,518
	Investment properties:		
11,098,622	Buildings and equipment, at cost	$ 12,097,463	
2,909,657	Less accumulated depreciation	3,114,087	
8,188,965		8,983,376	
467,029	Land, at cost	536,023	
8,655,994			9,519,399
104,853	Furniture and equipment, at cost	$ 114,922	
45,062	Less accumulated depreciation	65,053	
59,791			49,869
—	Deferred leasing expenses (note 1e)		190,225
$22,212,867			$22,726,404

On behalf of the Board:

R. A. Wykes, Director

J. J. Thistlewaite, Director

See accompanying

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companies

EET, DECEMBER 31, 1970
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1969	LIABILITIES AND SHAREHOLDERS' EQUITY		1970
$ 3,273,378	Bank loans and overdrafts secured by assignment of amounts receivable		$ 943,055
1,183,206	Accounts payable and accrued liabilities		1,294,883
153,670	Rents and deposits received in advance		115,765
488,978	Due to affiliated companies		37,777
298,305	Income taxes payable		104,358
523,465	Mortgage advances received on houses under construction		210,756
165,617	Deferred profit re land sales (note 1f)		232,183
	LONG-TERM DEBT:		
8,511,931	Mortgages payable, including accrued interest (note 3)	$ 11,440,743	
540,000	First mortgage bonds, Series B (note 4)	488,000	
261,500	7% Sinking fund debentures (note 5)	236,000	
9,313,431			12,164,743
360,000	Deferred income taxes		647,200
	SHAREHOLDERS' EQUITY:		
	Capital stock:		
	Common shares without par value.		
1,912,300	Authorized 550,836 shares; issued 373,086	$ 1,912,300	
2,000,000	General reserve—unchanged during year	2,000,000	
2,540,517	Retained earnings employed in the business	3,063,384	
6,452,817			6,975,684
$22,212,867			$22,726,404

financial statements.

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS EMPLOYED IN THE BUSINESS

YEAR ENDED DECEMBER 31, 1970

(with comparative figures for 1969)

1969			*1970*
$13,108,862	Gross operating revenue		$10,257,779
$ 2,473,952	Operating profit before the undernoted items		$ 1,960,161
—	Add dividend received from affiliated company (note 1b)		225,400
2,473,952			2,185,561
	Deduct:		
242,589	Depreciation	$ 239,243	
541,724	Interest on long-term debt	610,133	
784,313			849,376
1,689,639	Net earnings before taxes on income		1,336,185
1,144,000	Taxes on income		626,775
545,639	Net earnings for the year		709,410
2,181,421	Retained earnings employed in the business at beginning of year		2,540,517
2,727,060			3,249,927
186,543	Deduct dividends paid		186,543
$ 2,540,517	Retained earnings employed in the business at end of year		$ 3,063,384

See accompanying notes to financial statements.

MONARCH INVESTMENTS LIMITED
and subsidiary companies

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
YEAR ENDED DECEMBER 31, 1970
(with comparative figures for 1969)

1969			*1970*
	Funds provided:		
$ 545,639	Net earnings		$ 709,410
	Add charges not requiring cash expenditure:		
242,589	Depreciation	$ 239,243	
168,660	Increase in deferred income taxes	287,200	
67,019	Increase in deferred profit re uncollected proceeds of land sales	66,566	593,009
1,023,907	Funds provided from operations		1,302,419
3,200,811	Proceeds of issue of long-term debt (mortgages)	3,664,590	
(1,825,271)	Decrease (increase) in land, development costs and construction in progress	558,686	
(197,631)	Decrease (increase) in other assets	10,440	4,233,716
	Total funds provided		5,536,135
	Funds used:		
(1,434,257)	Decrease (increase) in bank loans and overdrafts	2,330,323	
2,490,016	Additions to investment properties	1,067,837	
862,063	Repayment of long-term debt	813,278	
(123,455)	Decrease (increase) in mortgage advances	312,709	
—	Deferred leasing expenses	190,225	
319,615	Decrease in income taxes payable	193,947	
215,006	Increase in mortgages receivable	172,768	
186,543	Dividends	186,543	
(583,392)	Decrease (increase) in other liabilities	377,429	5,645,059
$ (269,677)	Decrease (increase) in cash		$ 108,924

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 1970

1. Principles of Consolidation and Accounting Policies:

(a) All subsidiary companies are wholly owned and their accounts are included in the consolidated financial statements. All material inter-company transactions have been eliminated upon consolidation.

(b) Earnings of the 49% owned affiliated company have been included in the consolidated financial statements to the extent of dividends received. The company's proportion of the earnings of the affiliate since acquisition is $233,003 (including $7,286 earned in 1970) of which $225,400 was received as a dividend in 1970, leaving undistributed earnings since acquisition of $7,603 which are not reflected in the accompanying financial statements.

(c) Realty taxes and other development expenses pertaining to land under development are included in development costs. Realty taxes and other development expenses pertaining to undeveloped land upon which a plan of subdivision has not been registered are charged to current operations.

(d) Interest, other than that pertaining to an office complex in North York, has been charged to current operations. Interest on borrowings pertaining to the office complex has been included in cost of the investment property until April 30, 1970, the approximate date of completion of the building, and in deferred leasing expenses until December 31, 1970.

(e) Certain expenses to December 31, 1970, including operating costs, leasing costs and interest, incurred in connection with the office complex in North York in the amount of $190,225 (net of rental income of $180,550) have been deferred. The amount of $190,225 will be amortized by charges to operations over a five year period commencing January 1, 1971.

(f) The companies take up income on land sales on the basis of cash received after the cash received exceeds 15% of the sales price. If part of the consideration is represented by mortgages receivable, that part of the consideration is included in gross revenue and the relative gross profit is deferred to be taken into income, after deducting the relative income taxes, as the mortgages are liquidated. Income arising from the disposition of land under agreements for sale is recognized in the companies' accounts only to the extent of cash received after such cash received exceeds 15 % of the total sales price.

2. Mortgages Receivable:

Of the mortgages receivable $275,000 is due in 1971 and the remainder fall due at varying dates, the last payment being due in 1979.

3. Mortgages Payable:

Mortgages payable bear interest (including participation in rentals by a mortgagee) at rates ranging from 4¾% to 9⅛% and fall due as follows:

1971........	$ 475,000	1974........	284,000
1972........	378,000	1975........	867,000
1973........	972,000	1976 to 2005.	8,465,000
			$11,441,000

4. First Mortgage Bonds Series B:

The bonds were issued by a subsidiary company on a building leased by the company, pursuant to a deed of trust and mortgage dated October 1, 1959. The bonds bear interest at 6¾% per annum and are repayable in annual instalments of $52,000 to 1978, the balance falling due on October 1, 1979. The subsidiary company may redeem the bonds at a premium subject to certain restrictions.

5. 7% Sinking Fund Debentures:

The debentures, due May 1, 1975, were issued by a subsidiary company pursuant to a deed of trust and a supplemental deed of trust dated May 1, 1960 and December 1, 1960, respectively, which provide, in part, that the subsidiary company will set aside in a special sinking fund reserve account in its books a sum equal to 20% of its net profit for the immediately preceding fiscal period. Sums so set aside may be used for purchase for cancellation or redemption of debentures.

6. Pension Plan:

The unfunded obligation of the companies for pension benefits arising for service to December 31, 1970 is approximately $195,000. Of this amount $58,000 is being accrued and funded by annual payments to 1979 and $137,000, representing the costs of additional benefits added to the plan in 1970, will be accrued and funded over periods ranging from eight to fifteen years.

7. Contingent Liabilities:

The company and certain subsidiaries are on the covenant of certain first mortgages assumed by purchasers of houses and properties sold. It is considered unlikely that the companies will become directly liable in respect of any such covenants.

8. Supplementary Information:

The aggregate direct remuneration paid during the year ended December 31, 1970 by the company and its subsidiary companies to directors and senior officers of the company, as defined in The Corporations Act (Ontario), was $177,390.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Monarch Investments Limited and subsidiary companies as of December 31, 1970 and the consolidated statements of earnings and retained earnings employed in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the companies at December 31, 1970 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.
Chartered Accountants

Toronto, Ontario
February 12, 1971

MONARCH INVESTMENTS LIMITED

2025 SHEPPARD AVENUE EAST, WILLOWDALE, ONTARIO, CANADA

Subsidiary Companies:

Monarch Construction Limited

Clarkside Corporation Limited

Monarch Construction (Eastern) Limited

Montrow Realty Limited

42-48 Charles Street East Limited

Members of the Taylor Woodrow Group